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SUSTAINABLE DEVELOPMENT AND INTERNATIONAL ECONOMIC COOPERATION: UNITED NATIONS INITIATIVE ON OPPORTUNITY AND PARTICIPATION

Note by the Secretary-General

The Secretary-General has the honour to transmit to the General Assembly the report of the United Nations Panel on Opportunity and Participation, prepared in accordance with Assembly resolution 48/60 of 14 December 1993.

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ANNEX

Report of the United Nations Panel on Opportunity and Participation

SUMMARY

In an effort to increase the opportunities and participation of developing countries in the world economy and those of individuals and communities within them for accelerated and sustainable development, the General Assembly, in its resolution 48/60 of 14 December 1993, decided to establish the United Nations Panel on Opportunity and Participation to conduct a comprehensive study on the issue. The Panel, appointed by the Secretary-General as requested by the Assembly, met during the week of 15-19 May 1995. The present report summarizes the findings and conclusions of the Panel and puts forward its recommendations.

The report is organized as follows. Following an introduction, section I briefly discusses the concepts of opportunity and participation. Noting that these concepts encompass a wide range of economic, social and political issues, the Panel concentrated on issues related to economic opportunity within the framework of sustainable development. In section II, factors shaping the policy environment, at both the international and the national levels, are discussed. It also highlights the complementary roles of the overall economic environment and the importance of appropriate economy-wide policies at the national level. As a way to increase opportunity and participation in developing countries, with special reference to poverty eradication and the situation of disadvantaged groups, section III discusses the relevance of, and scope for, the promotion of micro-enterprises and small and medium-sized enterprises (SMEs), including the need for targeted approaches. It also discusses the positive impact of environmentally sustainable agriculture on rural development and the relevance of the participatory approach in its promotion.

The Panel concluded that the continuous creation and exploitation of opportunity and the widening of participation are required for sustainable development. The participatory approach was found to be highly effective, especially in programmes aimed at poverty alleviation and in promoting sustainable agriculture and fisheries. The promotion of micro-enterprises and SMEs was found to be an important means of enhancing opportunity and broadening participation primarily through the creation of employment. In the Panel's view, this requires sound macroeconomic policies and other economy-wide policies at the national level supported by a favourable international environment. Further, the Panel concluded that targeted policies for the promotion of SMEs were also necessary owing to the vulnerability of the sector. Finally, the Panel considered that the United Nations could play an important role in disseminating the concepts of opportunity and participation and development strategies embodying them.

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INTRODUCTION

1. Recognizing the need to intensify efforts to increase the opportunities and participation of developing countries in the world economy, as well as those of individuals and communities in the developing countries for accelerated and sustainable development, the General Assembly, in its resolution 48/60, decided to establish the United Nations Panel on Opportunity and Participation. The Panel met during the week of 15-19 May 1995. The present report summarizes the findings and conclusions of the Panel and puts forward its recommendations.

2. The Panel noted that the concepts of opportunity and participation encompass a wide range of economic, social and political issues. In its deliberations, the Panel concentrated on issues related to economic opportunity within the framework of sustainable development. It discussed various meanings of participation and examined the role of participatory processes in the elaboration of development strategies as well as in project formulation and implementation. The Panel further explored the scope for increasing opportunity and participation in economic and social activities, especially by disadvantaged groups in developing countries, through the promotion of small enterprises. 1/, 2/

3. The Panel observed that an appropriate global economic environment was complementary to economy-wide policies at the national level and that both were necessary for the expansion of economic and social opportunity for all groups and individuals. It noted that careful due account needs to be taken of the differing effects of structural adjustment programmes on different sectors of the economy, as well as on enterprises of different sizes, and appropriate remedial measures incorporated in policy. In particular, it observed that targeted support measures were necessary for the promotion of small enterprises owing to their relative vulnerability. The Panel further found that certain policies, while fostering environmentally sustainable agriculture, tended to have a positive impact on rural development and on broadening the participation of disadvantaged groups, particularly in the rural areas.

I. THE CONCEPTS OF OPPORTUNITY AND PARTICIPATION

A. Opportunity

4. Opportunity refers to the scope for expanding or diversifying existing economic activities or creating new ones, as well as for enjoying the material, social and other benefits arising therefrom. It may exist, and therefore needs to be fostered, at various levels, namely, the global, regional, national, subnational (including communities and groups), family and individual levels.

5. Whether a particular situation is recognized as presenting an opportunity is related to a nexus of needs and means, shaped by cultural, locational and specific historical factors. Thus, what constitutes an opportunity for one person, a group or a country may not appear such to others, if they have differing perceptions of their needs and/or differential access to the means available for exploiting what could otherwise constitute an opportunity.

Sometimes, opportunity may already exist, needing only to be identified and exploited. At other times, it has to be created. Finally, it must be recognized that what provides opportunity for some may shut it out for others. Thus, increasing opportunity does not ipso facto produce equity or equality.

B. Participation

6. While the term "participation" has become popular among development agencies in the formulation of development projects, it takes on different meanings according to the context in which it is used. 3/ The Panel viewed participation in development as meaningful involvement in social, political and economic activities, including burden-sharing, and equitable access to the benefits of economic and social progress. This is in line with the Programme of Action of the World Summit for Social Development, which affirms the promotion of participation as essential for the achievement of social development. 4/

7. In the present report, the discussion on participation concentrates on activities or processes relevant to the exploitation of economic opportunity. This covers the involvement of people and groups in the production and exchange of goods and the provision of services. Such involvement may take the form of employment, entrepreneurial activity, the management of enterprises and ownership of assets. As also noted in the Programme of Action, increasing economic opportunity and broadening participation raise important issues of governance. 5/

8. Of particular salience here is the question of participatory processes in the formulation of policy and the allocation of resources. The direct involvement of actors in development initiatives and decision-making is especially effective when the target is a particular disadvantaged group and the goal is poverty alleviation. 6/ While this inclusive approach may incur high costs in such aspects as supervision and training, especially at the initial stages of a project, the long-term cost-effectiveness of such an approach may be high. 7/

9. Participatory processes are, thus, valued for their contribution towards social integration and long-run cost-effectiveness of projects. But they are important for other reasons as well. They may, for example, increase welfare by mobilizing underutilized resources. Participation can also facilitate good governance, confer legitimacy on public activities and reduce alienation, thereby contributing to the maintenance of public order and the integrity of the State.

C. Opportunity, participation and development

10. Current development strategies place overwhelming emphasis on market mechanisms, on the theory that, under appropriate conditions, market signals lead to a more efficient allocation of resources. It is generally appreciated that expansion and liberalization of markets create opportunities. But the extent of participation in the opportunities created through market mechanisms is conditioned by factors such as culture, management and entrepreneurial

skills, as well as access to productive assets, information, technology, research and financial resources. Moreover, the behaviour of enterprises in unregulated markets may impose substantial social and environmental costs on other social actors and constrict their scope for participating in social and economic life. There is, therefore, a major role for state policy and action in preserving opportunity and facilitating broad-based participation in order to promote sustainable development.

11. Determining the appropriate scope and modalities for effective state action is, however, a complex and controversial matter. First, the target group must be carefully identified and delimited. Secondly, consideration must be given to the appropriate level - international, regional, national and subnational - at which to intervene. Thirdly, consideration must be given to the sphere of intervention, whether it be political, economic, social or some combination of these. Finally, how to intervene most effectively has to be judged - through economic policy instruments, legal reform, law enforcement, intergovernmental cooperation, political, administrative or judicial discretion, education policies, research and development policies, technology development and dissemination, or empowerment of particular geographical or disadvantaged social groups, such as indigenous people, minorities and women.

II. THE POLICY ENVIRONMENT

12. The Panel observed that the ability of the peoples in the developing countries to participate meaningfully in social and economic activities was significantly influenced by both national policies and the international economic environment. It was noted that the effect of sound and efficient policies at the micro-economic level as well as the impact on individual and small group initiatives can be blunted by inconsistent or unbalanced macroeconomic policies. On the other hand, properly designed and implemented macroeconomic policies greatly enlarge economic opportunity and magnify the impact of micro-economic policy measures. This facilitates broader participation in economic growth and improvements in the quality of life. At the international level, globalization of the world economy, both in trade and in finance, offers considerable opportunity for externally oriented growth strategies. In particular, the rapid technological innovations of recent years, reinforced by the liberalization of international trade and finance, have created economic opportunity domestically and internationally. The extent to which these opportunities will be exploited and their benefits widely shared is greatly affected by conditions in the international as well as the domestic, social and economic environment. Thus, the mere presence of opportunities in the global economy guarantees neither their equitable and effective exploitation nor economic or social progress in any particular country.

13. Therefore, selected international economic developments and the domestic policy environment are briefly examined in the following paragraphs, since these create opportunities and largely determine the extent of participation in their exploitation and enjoyment.

A. International economic environment

14. The past 15 years or so have been marked by increasing globalization of economic activity, especially in relation to trade, finance and communications. The new international trading regime set up by the recently concluded Uruguay Round of multilateral trade negotiations is expected to accelerate this process. Globalization, however, has proceeded unevenly, with the result that large numbers of people have become marginalized. To help redress this trend and create conditions that enable poor countries, and the people within them, to benefit from the opportunities created by a more integrated world economy calls for concerted policy responses at both the international and national levels.

1. Globalization of trade

15. Over the past decade, international trade has consistently expanded at a more rapid rate than world gross domestic product (GDP). During the period 1985-1994, the volume of world exports grew at the rate of 5.6 per cent per annum, while world GDP grew at 2.2 per cent. The growth of trade, however, was not even across regions. Exports of developing countries as a whole increased more than twofold (141.4 per cent) in real terms, broken down as follows: South and East Asia, including China, 233 per cent; Latin America, 56 per cent; and Africa, 52 per cent. However, these gains in export volumes were partially nullified by movements in the terms of trade, which worsened during the period 1980-1994 for all developing regions, except the Mediterranean. The decline was 30 per cent for Latin America, 50 per cent for Africa, 57 per cent for West Asia and 18 per cent for South and East Asia. The world economy also exhibited considerable instability in the growth of trade opportunities. For instance, the quantum of world exports rose by 9.4 per cent in 1994, but only by 5.3 per cent in 1993. 8/ Such instability makes resource allocation and innovation more difficult. While this affects all economies, its effects are particularly serious for developing countries, especially the exporters of primary commodities, which are more vulnerable to external shocks owing to their highly inflexible economic structures.

16. Although the increased transparency and expanding trading opportunities resulting from the completion of the Uruguay Round will give a boost to world trade, many developing countries may not be able to reap the full benefits of these improvements. One major factor is that the new regime restricts the use of export incentives and industrial policies that were so successfully deployed in the development process of the newly industrializing countries (NICs). To compensate for this, improvements in other aspects of the international institutional framework are urgently needed.

17. Three broad goals should be pursued. First, international institutions need to increase their effectiveness in containing the occurrence and severity of instability in the world economy, and enhance the ability of countries to cope with it. They should also take measures to make it easier for developing countries to take advantage of the opportunities offered by the new trading system. Secondly, in formulating economic policy, proper account should be taken of the differentiated effects of specific measures on diverse social and economic actors through their effects on, for example, productivity, employment

and investment. Thirdly, efforts should be made to arrive at a more balanced view of how markets work in different societies and economies and how they interact with government policy interventions.

18. Regional trading arrangements among developing countries could make a significant contribution to their efforts to expand and diversify exports as well as to upgrade their quality. Their small and medium-sized enterprises, in particular, can benefit greatly from the enhanced trading opportunities offered by regionally integrated markets. Developed countries, international institutions and regional organizations should, therefore, encourage and facilitate economic cooperation among developing countries.

2. Globalization of financial flows

19. The growing volume of private international financial flows to many developing countries in recent years has provided them with a major opportunity to finance needed investment. It has, however, included a large component of short-term capital flows, which are subject to great volatility, as recent events in Mex .co and several other countries have demonstrated. Except in Asia, the more stable components, such as foreign direct investment and long- and medium-term financing, have represented a smaller part of the flows. Combined with the recent decline in official development assistance, which is not likely to be reversed soon, this constitutes a serious problem for poor countries, especially the least developed.

20. The undoubted dynamism in the international financial markets can increase the participation of increasing numbers of countries in expanding investment opportunities only if financial instability is seriously curbed and the flow of information on financial markets greatly improved. The volume and variety of compensatory financ ng provided by international financing institutions and regional institutio s also need to be expanded. A new allocation of special drawing rights (SDRs), in sound amounts for the world economy, could provide the needed financing for much of this.

21. In the face of volatile capital flows, however, the role of domestic policy becomes critical. Successful countries have been those that have been capable of attracting a high level of external capital inflows while, through active macroeconomic policies, avoiding the over-heating of domestic demand, excessive exchange rate appreciation and volatile interest rates. An instructive illustration is provided by a comparison of the cases of Mexico and Chile in the past few years. Both countries had budget surpluses, an open import regime and privatized ventures and were implementing structural reforms. However, Mexico remained wide open to short-run capital flows and left the exchange rate to appreciate pari passu, while Chile discouraged such inflows through taxes on non-interest-bearing deposits and increased reserve requirements. As a consequence, Mexico has suffered a severe adjustment crisis since December 1994, while Chile has exhibited dynamic and financially sustainable growth. In general, successful countries were those that also enhanced, rather than weakened, domestic investment efforts.

B. Domestic economic environment

1. Macroeconomic policy framework

22. Domestic macroeconomic policies intermediate between external and domestic markets, and should be capable of softening the adverse effects of external shocks. They must also be designed to avoid or cushion domestically generated shocks. Quite often, however, macroeconomic policy in many developing countries has generated stop-and-go outcomes and created environments that discourage capital formation and technological innovation. In general, too little consideration has been given to how the process of adjustment affects capital formation and the use of existing capacity. Many structural adjustment and stabilization programmes thus reflect serious shortcomings in two aspects relevant for the present report. They have been associated with rather weak investment performance and with negative trends in the equitable distribution of the gains from development.

23. In the past decade, several indications of weakening economic and social participation have been observed in various parts of the world. There are various measures of inequalities, such as the percentage of household income accruing to lower-income groups, the ratio of the income share of the richest 20 per cent to the lowest 20 per cent, urban income versus rural income and real per capita GDP. One rather crude indicator of changes in inequality over time among regions is the differences in their growth rates of GDP per capita. Thus, for example, per capita GDP in Africa and West Asia has declined over the past decade (-1.0 per cent and -2.8 per cent per annum, respectively, for 1985-1994). For the former, the growth rate was barely positive in the preceding decade, at 0.3 per cent per annum, while the latter experienced a negative average annual growth of 2.3 per cent. In Latin America, the average annual growth rate was marginally positive over the past two decades (0.7 per cent for 1975-1984 and 0.5 per cent for 1985-1994). Only in South and East Asia, especially in China, did per capita GDP grow strongly throughout the two decades. South and East Asia experienced an average annual growth rate of 3.8 per cent over the two decades, while China increased its average annual growth rate from 6.2 per cent to 8.3 per cent from one decade to the next. 9/

24. To the extent that programmes of structural adjustment and stabilization have been carried out under the guidance of international financial institutions, some of their shortcomings may be attributable to a rather naïve interpretation by these agencies of how the markets of specific countries operated and how they would react to different policies. In this connection, the importance of adapting policies to take account of economic heterogeneity must be emphasized. A larger role for the United Nations in economic matters could, perhaps, contribute to the dissemination of a more balanced view of market behaviour. In particular, the United Nations regional commissions and the regional development banks, which are closer to the problems and understand better their country specificities, could contribute significantly to shaping opinion and designing more efficient policies.

2. Mesoeconomic policies

25. In order to take advantage of the general trends towards globalization and rapid technological progress in the world economy, economic development needs to generate markets for technology, labour training and long-term financing. In all these areas, however, markets are weak, incomplete or non-existent in most developing countries. Therefore, economy-wide policies directed at strengthening these markets are needed. Such policies, termed mesoeconomic policies, play a crucial role in linking macroeconomic policy to the behaviour of social and economic agents at the micro level.

26. The externalities involved in the adoption of new technologies and labour training can be very significant, particularly in developing countries, where they greatly enhance the flexibility of national economies. Effective policies in this area require the cooperation of the central government, local administration, business associations and labour unions in various combinations, depending on the nature of the training and technology involved in each case, and on the type of market. In some cases, all that is needed is encouragement by the Government, for example, by providing appropriate tax incentives. In other cases, it may be necessary to establish a training facility or a mechanism for channelling information on new technologies to putative users.

27. Long-term segments of capital markets do not emerge spontaneously in response to naïve financial reforms. Careful effort by Governments is required to design and implement suitable reforms, whose success is closely related to the nature of capital inflows. For, as previously indicated, policies that give priority to long-term flows and discourage volatile flows can play a significant positive role in ensuring macroeconomic stability.

3. The mix of domestic policies

28. While it is true that a high rate of investment is not by itself sufficient to bring about sustained development, no developing country has achieved sustainable, vigorous economic development with low rates of investment. In order to achieve high rates of investment, macroeconomic and mesoeconomic policies must pay a great deal of attention to the broader factors shaping the environment for investment. Such factors include the investment process itself, the possible effects of adjustment policies, the complementary relationship between public and private investment, and the effects of capital flows on exchange rates, domestic savings and local capital markets. The record of recent years has been poor. To improve this state of affairs, it is necessary to reduce instability of both external and domestic origin. Public investment in education, infrastructure and training, and provision of incentives to innovation should not be sacrificed in adjustment processes. Capital flows should be directed to enhance investment and to crowd in domestic savings. In sum, more pragmatic and comprehensive macroeconomic policies, combined with more intense mesoeconomic policies, are crucial.

III. INCREASING OPPORTUNITIES AND BROADENING PARTICIPATION THROUGH THE PROMOTION OF SMALL ENTERPRISES AND SUSTAINABLE AGRICULTURE

A. Small enterprises and expanding opportunity

29. Small business undertakings, embracing micro-enterprises and SMEs, operate in a wide range of economic activities in virtually all countries. They are found in both the urban and the rural non-farm sectors, and may be in formal or informal sectors. In most countries they provide the bulk of employment. Micro-enterprises offer an effective means for creating employment and generating income, albeit frequently at the subsistence level, for the poorer and more disadvantaged social groups. Among these, women, who constitute about 70 per cent of the world's poor, feature prominently as owners and workers. As is well-established, women engage in such activities principally as a means of sustaining their families. Thus, the promotion of micro-enterprises should form an important part of programmes for poverty alleviation.

30. The promotion of small and medium-sized enterprises, on the other hand, can be more effectively incorporated into more general industrialization strategies. SMEs can play an active part in highly competitive areas, such as the export-oriented and technology-intensive sectors. Employment thereby generated has a powerful multiplier effect. By providing income and increasing production, these enterprises can induce further demand for goods and services, which, in turn, creates more opportunities and employment. This chain of SME development also brings about indirect effects, such as broadening the national tax base and increasing tax revenues, which can be redistributed through appropriate policies to ensure wider participation in the benefits of economic development. Therefore, the Panel concluded that the expansion of micro-enterprises and small and medium-sized enterprises, and policies for their promotion, were an important means of extending opportunity and widening participation, especially in developing countries.

31. With a view to promoting small enterprises, special attention must be paid to the differential effects that macroeconomic and mesoeconomic policies have on firms of different sizes. In particular, certain macroeconomic policies may be harmful to the small-enterprise sector, despite their favourable effects on larger enterprises. For instance, trade liberalization, if it is introduced without allowing enough time for adjustment, could put some small enterprises in jeopardy by exposing them to tougher competition too soon. Even in such cases, however, direct intervention has been observed to be harmful. In general, the best environment for small enterprises is likely to be one where the markets in which they operate function well without direct public sector intervention. One policy approach is intervention with a "light touch". Such intervention is normally decentralized and aimed at supporting, rather than supplanting, the private market. 10/

B. Targeted policies for promotion of small enterprises

32. As discussed in section II, the provision of an enabling policy environment at the macroeconomic and mesoeconomic levels is essential for the development of the national economy, including, in particular, the small-enterprise sector. By itself, however, this is not enough for the latter. It has to be complemented by policies targeted specifically at the promotion of micro-enterprises and SMEs. These would include measures, inter alia, for improving access to financial resources, promoting entrepreneurship, increasing access to land and providing a better regulatory environment.

1. Increasing access to financial resources

33. One of the major constraints on the productive occupation of the poor and other disadvantaged groups, as well as small enterprises generally, is lack of access to finance. Macroeconomic and financial sector reforms have not generally succeeded in filling this gap and providing for the credit needs of the bottom 50 to 70 per cent of the economically active population. Non-traditional specialized financial intermediaries, including non-governmental organizations, for their part, reach no more than perhaps 2 per cent of the more than 500 million people who run micro- and small enterprises throughout the world. 11/ According to the Human Development Report, 1993:

> "If government and official aid programmes usually fail to reach the poorest 20% of income groups, most NGO interventions probably miss the poorest 5-10%." 12/

Thus, not even the specialized non-governmental organizations reach the very poorest. The situation of the more advanced SMEs is slightly different. For them, the major handicap is the limited availability of venture capital.

34. Overall, the volume of funding made available for assisting micro- and small enterprises in most developing countries has proved inadequate to the task. But even with limited funding, a number of approaches are available to policy makers. At the bottom of the scale, grants offer the most direct way to reach the very poorest. For the portion of the population with productive skills, however, credit programmes seem to offer more sustainable solutions. Here, different types of credit programmes have been designed for different target groups and different objectives. Successful programmes tend to be more comprehensive, emphasizing productive skills and sometimes providing for training and information support.

(a) Grant programmes for micro-enterprises

35. Successful grant programmes for micro-enterprise development tend to be those that provide small amounts of capital in cost-effective and culturally appropriate ways. The smallness of the amount facilitates self-selection by highly motivated but poor beneficiaries. But, instead of merely giving out aid, these programmes tend to combine grants with technical assistance. Grants of this sort have been found particularly effective in relation to such disadvantaged groups as refugees and displaced persons, victims of natural

disasters, ethnic minorities and people affected by acquired immunodeficiency syndrome (AIDS) (see box 1).

36. The dynamic feature of such grant programmes is that by providing the very poorest with the opportunity for entrepreneurial experience, improvement of business skills and confidence-building, they can facilitate future access to credit by enabling small-scale entrepreneurs to establish themselves and qualify for loans from other sources. Many successful grantees subsequently seek and receive additional capital for business expansion from credit programmes. In conjunction with community-development programmes, grants can also promote the formation of locally based revolving loan funds.

Box 1. Trickle-up programme

The trickle-up programme was established in 1979 with a view to fostering self-help among the world's poor by providing small grants and basic business training. The approach of the programme is to provide a conditional grant of $100 in two $50 instalments to be used as start-up capital for a business activity. The established process requires 1,000 work-hours in the first three months, reinvestment of 20 per cent of the profits and completion of a business plan and report. As of mid-April 1995, more than 45,000 businesses had been established under the programme in 110 countries.

Wherever it is feasible, the trickle-up programme tries to form an enterprise zone - a cluster of 30 to 100 micro-enterprises whose entrepreneurial progress and impact on the surrounding community are tracked for up to three years. The following examples illustrate how these enterprise zones increase opportunities and participation for micro-entrepreneurs in production, consumption, access to capital, self-employment, community development and institution-building.

In Malawi, 13 enterprise zones, comprising 175 small farms, have been in operation for five years in Dowa. They have generated income and employment through the cultivation of hybrid maize. The benefits are clear. Average family income has more than doubled, and profits from maize, coupled with the 20 per cent trickle-up savings requirement, have attracted a mobile rural savings bank to the villages. The local credit union, established by enterprise zone participants, makes loans for farm improvement. The production and storage of maize has provided a measure of food security, and child malnutrition has decreased. More families have been able to send their children to school, and health has improved as a result of the availability of clean water from a community-built well. In addition, the enterprise zones have served as a catalyst for community self-help efforts, through which a market-place, a drinking well and an elementary school have been built. Three institutions were established: an agricultural cooperative, a credit union and a non-governmental organization, the Dowa Enterprise Zone Association, which was formed to continue and expand the enterprise zones.

In Guatemala, a partnership between the Government, grass-roots organizations and the trickle-up programme is helping indigenous people. Three enterprise zones, involving 230 businesses, were started in the rural

areas of Chimaltenango, Totonicapan and Sacapatepequez in 1993/94. The entrepreneurs, mostly women, have started micro-businesses involving food-processing, vending and traditicnal crafts, such as clothes, rugs and tablecloths.

Within a year, the entrepreneurs had gained experience as successful entrepreneurs on two levels. First, as successful business people they were able to take risks and secure and utilize loans. Secondly, their community organizations had demonstrated their capacity to manage a more complex programme. After receiving their grants from the trickle-up programme, three community organizations applied for, and obtained, $9,000 from the Government of Spain for "solidarity funds". The organizations were trained to manage these funds and are now making loans to members for business expansion.

(b) Improving access to credit

37. Except for those operating among the absolute poor, credit programmes would seem to offer a more financially sustainable approach than grants for micro- and small enterprise support. Those enterprises that have access to credit have demonstrated their ability to repay their loans. Those that are compelled to resort to moneylenders pay even higher rates of interest than is charged by commercial banks. The United Nations Expert Group on Women and Finance, convened by Women's World Banking, concluded that what is most desired by such enterprises is an improvement in access to credit, not subsidies. 13/ Lack of collateral and the small size of their loan requests constitute major obstacles to these enterprises in obtaining credit from traditional financial institutions, which perceive such small loans as unduly costly.

38. A number of credit schemes and specialized financial institutions have been designed to reach small enterprises, and the record shows such schemes to be viable. They range from specialized banks to village-based revolving funds. These programmes take different forms depending on their goals and target groups (see box 2). However, even these special programmes reach probably only 10 million micro-enterprises and SMEs worldwide, about 2 per cent of the overall number. Thus, greater efforts are called for.

39. Several lessons about targeting large numbers of these entrepreneurs can be learned from the experiences of successful financial institutions. First, the programmes have to be designed specifically to reach their target groups. Thus, when the target group is low-income women, factors such as smallness of loans, alternative collateral requirements and simple application procedures become important. Secondly, these institutions should aim for financial self-sufficiency so that they can become permanent institutions serving their target group without being vulnerable to sudden policy changes by Governments or donors. It is not always possible to achieve full financial self-sufficiency in all types of schemes. 14/ Even where a measure of subsidy is required, however, the positive externalities may be sufficiently large to justify such schemes. Thirdly, the financial institutions should aim at empowering their clients. Provision of credit itself contributes directly to the economic empowerment of the recipients. But, in addition, the more successful programmes provide training schemes for their clients.

Box 2. Typology of successful credit programmes

Different types of credit programmes have been designed and used for different objectives and target groups. Four broad categories of these are considered here: development banks, including special credit schemes within commercial banks; poverty-oriented banks; affiliate networks; and other non-governmental organizations.

(a) Development banks

These are generally government-owned, with a mandate to serve small-scale borrowers. Included are commercial banks with special credit schemes targeted at such borrowers. Examples of such development banks are NAFIN/PROMYP of Mexico and CFN/FOPINAR of Ecuador, both of which operate through second-tier lending. An example of a commercial bank programme is BRI/KUPEDES of Indonesia. This bank operates through chabangs (branches) and unit desas (village units). It was originally set up for an agricultural credit programme, but the numerous unit desas, which were the only formal banking system for 75 per cent of the country, were converted to full banking units by mid-1994 to serve the rural population.

(b) Poverty-oriented banks

These are officially registered as banks, but have the clear objective of serving the poor. Two of the best-known examples in this category are the Grameen Bank in Bangladesh and the SEWA (Self-Employed Women's Association) Bank in India. The Grameen Bank serves landless people in the rural areas. Its innovative feature is to arrange for collective collateral by organizing people into groups of five. Although the Grameen Bank is now looking into non-subsidized loans, it has, to date, relied on concessionary loans and grants for its funds. The SEWA Bank operates as a cooperative bank, pooling members' funds and collecting savings, which form the basis for its loans. The members are poor women entrepreneurs. Both the Grameen and the SEWA Banks enjoy high repayment rates.

(c) Affiliate networks

By forming networks, a number of institutions are able to exploit a wide array of funds, services and information. In addition to their main function of financial intermediation, these networks provide other services, such as training and counselling. One of the best known examples in this category is Women's World Banking (WWB). Each WWB affiliate is an independent non-profit institution with autonomy over decision-making and finances. The network's centre in New York offers a range of services to affiliates and coordinates programmes, including organizing global forums and local workshops.

(d) Other non-governmental organizations

These institutions are usually not formal financial institutions. Their linkages with commercial and development banks enable them to mobilize funds to meet the needs of their client groups. One example is the Asociación Dominicana para el Desarrollo de la Mujer (ADOPEM), an affiliate of WWB, in the Dominican Republic. A loan-guarantee agreement with WWB has enabled ADOPEM to arrange a leveraged credit line from a commercial bank, which ADOPEM on-lends to entrepreneurs. ADOPEM is more than fully financially self-sufficient. Also included in this category are more than 17,000 credit unions operating in 67 developing countries whose national associations are affiliated with the World Council of Credit Unions. They are member-owned and operated, providing savings and credit services.

40. Although special programmes and specialized financial institutions are important, their limited coverage means that a sustained impact on the problem of underfunding of micro-enterprises and SMEs calls for more active involvement of commercial banks, which tend to exclude this portion of the population because of the conviction that it is too costly to service. The experience of successful specialized institutions should encourage them to look more closely into the market opportunities offered by lending to this sector. By altering ways of operating and of products offered, costs and risks can be reduced. Finally, the possibilities of establishing collaborative relations among commercial banks, non-governmental organizations and specialized institutions to serve this sector should also be examined.

41. Government agencies and national development banks are generally better able to serve as catalysts than as direct lenders to small enterprises. National development banks should, therefore, concentrate on wholesale lending to private financial institutions that meet set performance standards, including competence in lending to low-income enterprises, which can then on-lend to this sector. 15/

(c) Availability of funds

42. In relation to needs, funds made available for programmes that serve micro-enterprises and SMEs are woefully inadequate. Grant as well as credit programmes generally need to be subsidized. Even when credit schemes and specialized financial institutions aim for financial self-sufficiency, they may still require subsidies in their early phases while they build institutional capacity and achieve a break-even volume of lending. The experience of these programmes indicates that it takes an efficient lender from three to five years to cover operating costs, including loan loss provisions, and from five to seven years to build the volumes needed to cover full commercial financing and operating costs. Governments and other funders can provide resources in ways tailored to the stage of development of particular institutions. When they achieve sufficient size and capacity, however, these financial institutions may be expected to access domestic and international commercial funds directly through the financial markets.

(d) Other aspects of policy

43. Legislation affecting specialized financial institutions is often so restrictive as to allow little room for scaling up to reach the stage of financial self-sufficiency. This needs to be altered. Again, performance evaluations of financial institutions can be modified to give greater weight to their lending to micro- and small enterprises. This would help improve the access to funds, refinance and deposit insurance by these institutions. In addition, NGO financial institutions, especially in Africa and Latin America, often face restrictions on savings mobilization that reduce their ability to lend and cause them to depend more on outside resources.

44. Again, many community-based development agencies lack the capacity to implement grant and credit programmes, which require a certain minimum level of financial, administrative and technical resources. Governments can support development finance institutions in providing capacity-building services to community organizations. Networks of specialized financial institutions, including non-governmental organizations, can also be effective in providing such services. In some communities, where they are not fully integrated into modern, monetized economies, ways can be found to incorporate traditional business practices into modern systems so as to increase the economic participation of local people (see box 3).

Box 3. Mobilizing capital among the Tolai people of Papua New Guinea: incorporating customary practices in the modern economy a/

Coconuts and traditional shell-money have been used to raise capital by a community-based business engaged in development on behalf of the Tolai people, who live on the Gazelle Peninsula of Papua New Guinea's East New Britain Province. The experience of the New Guinea Development Corporation shows how traditional values, institutions and ideas may be used to mobilize capital in order to create and take advantage of opportunities for economic participation in developing countries.

The Corporation was set up in the early 1970s, when traditional agricultural subsistence was either giving way to wage-employment (primarily for men), mainly in semi-skilled and unskilled occupations - or was being supplemented by small-scale production of copra and cocoa for export, trade stores or trucking. Government-sponsored cooperatives, which were the largest locally owned concerns, were competing with (mainly foreign) entrepreneurs. Widespread opposition to local government reforms, which would have had the effect of increasing foreign influence in a Tolai-owned and operated cocoa-processing project, led to the formation of the Mataungan Association - and to its economic offshoot, the New Guinea Development Corporation. According to the founder of the Corporation, John Kaputin, the political circumstances that developed in the area "meant a rejection of the foreign system" by a substantial proportion of the Tolai people, who then numbered well over 60,000 and created important preconditions for establishing the Corporation.

The New Guinea Development Corporation was launched in May 1970, was registered in August 1972 and began operations in November 1972. It developed from a long series of informal discussions, held in villages throughout the Gazelle Peninsula, at which the current situation in the area - and alternatives - were raised; followed by formal meetings, deliberately confined to small numbers in order to facilitate communication and timed to fit in with particular villages' employment and subsistence commitments; and, finally, by actual capital raising.

Contrary to the requirements of introduced law, the Corporation did not begin with a board of directors but with a group of village leaders. Concepts were deliberately explained in familiar, cultural terms, with "corporation", for example, being equated with the traditional, Tolai landowning group (or clan), the wunatarai. Consistent with the commitment of the founders of the Mataungan Association and the New Guinea Development Corporation to self-reliance, customary practices and explaining abstract ideas in familiar terms, contributions were initially not sought in cash but in the form of coconuts (three per adult and one per child) and traditional Tolai shell-money, tabu. The coconuts were sold, thereby demonstrating "the creation of capital from ... available natural resources". The Corporation became "the only modern institution in Papua New Guinea to be involved in two currencies - the Kina (the official money currency) and tabu".

The K100,000-plus raised from communal effort and selling of shares eventually involved some 10,000 people. Following Tolai custom, in which contributions to communal enterprises were stored until further transactions occurred and tangible assets were acquired, none of the income was used (and no one was paid) until the Corporation had acquired its first properties.

The Corporation's early investments included a store, a cocoa fermentary, a copra drier, and plantations. Other properties have since been acquired for investment purposes in other parts of the country.

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a/ Based on John Kaputin, "The New Guinea Development Corporation", in F. S. Stevens and Edward P. Wolfers, eds., Racism: The Australian Experience. A Study of Race Prejudice in Australia, 2nd ed., vol. 3; Colonialism and After (Sydney, Australia and New Zealand Book Co., 1977), pp. 398-413.

2. Entrepreneurship promotion

45. The promotion of entrepreneurship is not necessarily the same as the promotion of enterprises, though the two obviously reinforce one another. Entrepreneurs are those able to identify opportunities and convert them into profitable business activity. The successful operation of entrepreneurs enhances participation by others through increased opportunities for employment and other economic activities. Thus, some programmes for promoting small and medium-sized enterprises may be designed to target specific entrepreneurs or individuals with potential for creating and expanding productive activities.

While such targeting may seem unduly selective, the overall effect usually extends beyond the entrepreneurs themselves. 16/ (For an example of such programmes, see box 4.)

46. Constituting more than half of the population living in absolute poverty, women would thus represent the majority of the beneficiaries targeted by any properly designed micro-entrepreneur and SME development programmes - except where their participation in production and economic activity is constrained by social factors or by special limitations on their access to capital. As entrepreneurs, women have a record of good performance, and the indirect benefits of their success are significant. The latter include, for example, improved nutrition, health and housing for their families, greater interest in family planning and provision of education for their children.

Box 4. The EMPRETEC programme a/

The EMPRETEC programme, jointly implemented by the United Nations Conference on Trade and Development and the Department for Development Support and Management Services of the United Nations Secretariat, focuses on entrepreneurship development and building linkages with foreign companies. The basic feature of EMPRETEC is to identify potential entrepreneurs, provide them with training and technical assistance, help them in arranging mutually beneficial connections with larger national and foreign companies and establish long-term support systems for the development of their ventures. The programme also emphasizes the building of effective and active coalitions of public institutions, private business associations, national and foreign companies, and multilateral organizations. By charging cost-recovery fees, the programme is expected to become self-financing within three to four years, by which time an EMPRETEC foundation or equivalent organization will have been established to carry out the programme locally.

By the end of 1994, six years after its inception, the EMPRETEC programme had become fully operational in Argentina, Brazil, Chile, Ghana, Nigeria, Uruguay, Venezuela and Zimbabwe. It operates through 18 local and provincial business support centres and has benefited more than 2,500 entrepreneurs in these countries. In addition, preparatory assistance or project documents have been formulated for 18 other countries. In the first three years, the average annual cost of the programme was US$ 700,000, of which one third was for training subcontracts and fellowships. But as the programme matured, this component was reduced. The programme also recovers operational costs by charging fees for its services.

The results so far indicate that EMPRETEC projects can have a significant positive impact on SME development, albeit influenced by the local political and economic environment. A favourable economic climate has assisted the growth of the SME sector in general in Chile and Ghana, and EMPRETEC entrepreneurs have recorded high rates of success there. In contrast, continuous political unrest and the dormant performance of the national economy gave EMPRETEC entrepreneurs in Nigeria a difficult time during 1993. These factors, combined with administrative problems, have meant that the Nigeria project has yet to see substantial results after four years of operation.

EMPRETEC projects have demonstrated the effectiveness of an approach that focuses on identifying entrepreneurs with superior potential. The programme has been successful in the development of new businesses and the expansion of existing ones. The bottom-up approach, which is built upon the needs of participating entrepreneurs, is considered to be one of its strengths. Establishing national support structures within the organization of the programme is also an innovative feature.

The programme is not, however, without its shortcomings. First, in spite of its emphasis on training, the programme has not provided training on an ongoing basis. Secondly, with the exception of the Ghana project, there has been no systematic effort to facilitate linkages with foreign companies. Thirdly, the effort to facilitate the access of SMEs to financial resources has been ad hoc. Fourthly, the database on the participants and their progress has not yet been developed to a point that would permit monitoring and evaluation of projects in a satisfactory manner.

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a/ EMPRETEC is a Spanish acronym for "emprendedores" (entrepreneurs) and "tecnología" (technology).

47. The legal and social obstacles often faced by women entrepreneurs call for special attention. For a start, they need encouragement to expand their businesses beyond self-employment. Literacy programmes and general education can provide them with a powerful means for increasing their economic and social involvement. Additionally, basic business education and specific training in entrepreneurial skills and attitudes can provide a crucial boost to their confidence and competence in the economic sphere. Networks and support groups among women can provide additional information and advice to support the development of women entrepreneurs.

3. Access to land

48. In the rural areas of many countries, lack of access to land can be a major constraint on micro-enterprise and SME development. In some countries, successful agrarian reform has been a precursor to agricultural productivity increases and SME development. As a general rule, agricultural land that is surveyed and registered, giving the cultivator clear title, records much greater productivity than other land. This is a powerful argument in favour of land tenure reform. In this connection, it should be observed that problems related to tenure are not necessarily attributable to tenure being based on custom or statutory law, but the appropriateness of particular systems to country-specific situations.

49. Private land use must also be reconciled with the public interest. This issue is of increasing importance, as the need to provide public facilities, such as roads, airports and schools, rises. As regards the use of land, next to exercising the right of eminent domain, perhaps the most effective policy

instrument is the power to tax. By effective use of taxation, Governments can encourage more efficient land use and higher productivity. Land registration is, of course, a prerequisite for effective taxation. The public interest in environmental protection has become increasingly important, especially in relation to activities involving natural resources such as forestry and minerals.

4. The regulatory environment and other policies

50. While government regulation of enterprise activity has a vital role to play, especially in maintaining health and environmental standards and protecting the safety of workers, excessive bureaucracy and red tape can hamper the functioning of enterprises. It has been observed in many countries that some government regulations prove damaging to small enterprises, where the cost of compliance is largely relative to the level of sales and where they may be subjected to exploitation by corrupt public officials.

51. Additionally, regulations affecting labour markets, such as those setting out minimum wages and social security contributions, may work against small enterprises. While intended for the protection of workers, such regulations tend to be designed with the conditions of larger enterprises in the modern sector in mind. Minimum wages, for example, if set too high, may place SMEs at a competitive disadvantage relative to larger firms. So may high social security contributions. While regulations such as standards on health, safety and quality do not always impose undue burdens on SMEs, some others, such as siting and floor area requirements, may do so.

52. The effects of reducing regulatory standards are, however, ambiguous. As it is, small enterprises tend to evade many of these regulations, in any event. In addition, even though some exploitation by public officials may exist, it is hardly likely that this will cause enterprises to fail. Thus, the issue is not one of necessarily exempting SMEs from such regulations, but applying the latter in ways as to reduce the cost of compliance for SMEs as much as possible.

53. As encouragement to small entrepreneurs and for promoting the interests of disadvantaged groups, such as women, there are other aspects of legislation that need to be revisited. These will include the simplification of registration procedures, taxation and credit access, with a view to facilitating the operations of micro- and small enterprises and the financial institutions that serve them. In many countries, women's economic participation is further discouraged by laws regarding inheritance and property rights which restrict their right to acquire legal title to real property or financial assets. These, finally, need to be dealt with decisively if the benefits of entrepreneurial activity by women, especially its positive effects on family welfare, are ever to be fully realized.

54. Large-scale industrial projects can also effectively promote the involvement of SMEs in various ways, including subcontracting. In Papua New Guinea, for example, firms applying for large mining projects must include plans to stimulate local business activity.

5. Promotion of small enterprises with specific orientation

(a) Export-oriented small enterprises

55. Even though the importance of SMEs in economic development in general has received some recognition, the role of SMEs in export promotion has attracted less attention, probably because their potential for international competitiveness is usually underrated. But, as their contribution to the recent successes of the NICs, and Japan before that, has demonstrated, SMEs can play an important role in export growth. When their indirect contribution in supplying parts and components to the larger export-oriented enterprises is taken into account, the overall contribution of SMEs is quite significant.

56. SMEs can be important even in the initial stages of an export-led growth strategy. For example, the flexibility of SMEs in production enables them to adjust easily to changes in overseas demand. SMEs also have an advantage in the production of low-cost, labour-intensive goods, which are typical export items at the early stages of export-led growth. Even where SMEs do not export directly, they may be subcontracting to large enterprises. It must be recognized, too, that SMEs have been successful in relatively technology-intensive production, such as in metal fabrication and light engineering. At a later stage of development, more SMEs are able to export directly, leading to changes in the structure and composition of the SME sector itself.

57. In spite of their acknowledged success in certain countries in Asia, however, SMEs in other countries, particularly in Africa and Latin America, have been responsible for only a small share of exports. Lack of information regarding overseas markets, an adverse macroeconomic environment and discriminatory trade policies in potential export markets are some of the reasons for this. It is thus essential that Governments provide an enabling environment for the development of SMEs. In addition, Governments can provide an integrated package of assistance, which could include tariff/tax reductions, export credit guarantees, technical assistance, improvement of marketing and export facilities, and improvement of market information flows. Further, as happened in the Republic of Korea, Governments can provide assistance in facilitating linkages between SMEs and larger firms where these linkages may otherwise be difficult to establish. Experience shows that foreign partners, be they trading companies or companies making direct investments, can also assist in the strengthening of export-oriented SMEs. Even tourists can be of help as a source of information on trends abroad so that SMEs can produce goods suitable for export - as happened in the garment industry in Bali, Indonesia. Innovative concepts such as franchising, industrial incubator schemes and venture capital financing may also be useful for promoting export-oriented small enterprises.

(b) Technology-intensive small enterprises

58. In the technology-intensive industries, large size was once considered essential to carry out research and ensure an efficient scale of production. In the past two decades, however, it has become evident that small enterprises play a significant role in the growth of high-technology industries in the developed countries. In an age of rapid technological change, small firms have a comparative advantage in many sectors in identifying and serving new markets

before large firms move in. The growth and competitiveness of firms in the Silicon Valley in the United States have demonstrated the strength of small enterprises in some highly technology-intensive industries. The availability of a pool of highly educated and skilled labour is, of course, a prerequisite for the success of this subsector - a condition not often met in the poorer countries.

59. Some developing areas, Taiwan Province of China, for example, and, more recently, India, have shown that it is possible to encourage the development of technology-oriented SMEs in developing areas, too. Government policy can promote the development of such industries by ensuring access to finance, especially venture capital; by protecting intellectual property rights; and by providing tax incentives. The critical mass in research and development, manufacturing and marketing provided by large companies can be complemented by the flexibility of small firms. A high-technology industrial park, which consists of large and small enterprises, built in conjunction with a local university and with government assistance, could be a useful approach for some developing countries. The rapid growth of globalized telecommunication networks presents a unique opportunity for SMEs to overcome the disadvantages of size, not only with respect to access to information but also for obtaining business services.

(c) Cooperative enterprises

60. Because they are owned and controlled by their members, cooperative enterprises offer a unique way of increasing both opportunity and participation. Most often, members of a cooperative reside in one or several neighbouring communities. By sharing the same environment and social circumstances, these cooperators are likely to pursue goals that are beneficial to the community as a whole.

61. Cooperatives take many forms and have a variety of objectives. They can take the form of production cooperatives or labour cooperatives, where members themselves constitute the workforce. They can be formed by independent enterprises and by micro-enterprises. Examples include purchasing, supply and marketing cooperatives, savings and credit cooperatives, cooperative banks and cooperative insurance enterprises. But, as mutual self-help organizations, cooperative enterprises can contribute directly and indirectly to poverty alleviation through employment creation. An example of a cooperative bank is the SEWA Bank, described in box 2 above.

62. It has to be acknowledged that the record of cooperative enterprises in creating sustained opportunities has varied. For joint-marketing, bulk-buying and large-scale services, the rate of success has been good. Housing and credit cooperatives have also had some success. But, when it comes to production, the record has been more mixed. Thus, in agriculture, land-holding cooperatives, where production is carried out by family farmers owning subdivisions within the holding, have a good record. On the other hand, land-working cooperatives, where members do not necessarily own the land, have rarely thrived.

C. Cases of sustainable agriculture and fishery

63. In the rural areas of many developing countries, it is possible to design and implement programmes of sustainable development that have a positive impact on disadvantaged groups. While many examples can be given, only three are taken up: seed provision, small-scale cash-crop cultivation and small-scale fisheries.

1. Seed provision

64. An important aspect of most agricultural extension programmes is seed provision. The "Green Revolution" has produced a number of better quality seeds for important commercial crops. For the most part, however, attempts by both public and private institutions to provide better seeds to smallholders have not been very successful. While the public sector has been hampered by such factors as lack of resources, poorly motivated staff and poor management, the private sector has often been deterred by high transaction costs.

65. To fill the gap, non-governmental organizations with a highly participatory orientation have been brought into the picture. Such non-governmental organizations have the advantage of being closer to the farmers, especially if they are already involved in other programmes in the same location. Being independent of public officials or profit-seeking managers, non-governmental organizations are in a position to allow more scope for popular participation in decision-making and operations. Their major drawback is perhaps their small size, even in the case of non-governmental organizations with adequate technical knowledge and research capability. 17/ This results in high production costs, jeopardizing the long-term sustainability of such programmes.

66. One promising way to make these seed provision programmes more successful is to support local farmer enterprises in seed production. Another way is to involve local and international non-governmental organizations, as well as research institutions, in the design and implementation of the programmes. An interesting example is furnished by the On-Farm Seed Project, which operated from 1987 to 1992 in Senegal and the Gambia, and involved cooperation among aid agencies, universities and international and local non-governmental organizations. 18/ By emphasizing a participatory approach in research and extension, this programme sought to improve the capacity of the farmers involved.

2. Small-scale tree crop cultivation

67. Even with the increased funding provided by major donors since the 1970s for tree cultivation projects, estimates made in the mid-1980s of atmospheric carbon dioxide suggest the need for more intensive planting in order to offset high rates of deforestation. This has led to a search for less costly, more management-intensive and internally motivated approaches involving the encouragement of smallholder tree cultivation instead of large-scale government schemes in developing countries, many of which are hampered by severe financial and institutional constraints.

68. Success here depends on the mix of at least four factors: appropriate agroclimatic conditions, the availability of off-farm trees, market demand for tree-based resources and access to markets. In general, the last two factors, namely, the price of tree products and access to markets, are the most important conditions. Particular attention needs to be paid to changes in market conditions as such schemes mature, in order to avoid the collapse of markets as a result of oversupply. Credit and subsidies may facilitate, but do not determine, the decision of smallholders to undertake tree planting. After these factors are considered, the next most important determinant of the smallholders' decisions to cultivate trees seems to be tree and land tenure, though the disincentives created by insecure tenure can be offset by the expectation of a high rate of return. There is also a need for assistance in the diffusion of locally adapted and new cultivation. One of the most important roles of government is again to ensure macroeconomic and sectoral stability. High interest rates and inflation will discourage smallholders in planting trees, as in other areas of production, by reducing the present value of their investment. Properly conceived and executed, though, commercial tree cultivation could prove to be a useful means of alleviating rural poverty while increasing tree cover.

3. Small-scale sustainable fisheries development

69. In many countries, the adoption of fisheries technologies requiring large-scale operations not only marginalize small-scale fishing communities but also create a "crisis" in in-shore fishing by depleting fish stocks. By the mid-1970s, the importance and appropriateness of small-scale fisheries, especially for in-shore fishing in the context of rural development, began to be appreciated. Initially, this recognition was based on conventional socio-economic considerations such as job-creation and the size of the fish harvests, compared to medium- and large-scale fishing, which remained more economic for deep-sea fishing. By the mid-1980s, additional benefits began to be recognized. The promotion of small-scale fisheries, it was observed, could lead to small-scale processing activities and greater self-reliance at the community level. This more labour-intensive cycle can result in lower fish prices and more local employment, thus making fish more accessible to the rural population.

70. A new approach is, therefore, necessary to guide the sector towards environmentally, socially and economically sustainable development. This would include such measures as recapturing artisanal knowledge and blending traditional technologies with modern ones, capacity-building in resource management, community development and the organization of fishworkers, development of a programme of conservation and the establishment of protected areas for local communities with restrictions on the catch of endangered species, and attention to the role of women in this sector.

IV. INSIGHTS AND RECOMMENDATIONS

71. In this concluding section, the Panel endeavoured to pull together threads of the material presented in the earlier sections, draw on their insights and suggest approaches and measures that it believed will enable policy makers to

move towards expanding the opportunities of people, especially in the developing countries, and enhancing their participation in social and economic life.

72. Sustainable development requires the continuous creation and exploitation of opportunity and the widening of participation. The participatory approach was considered highly effective, especially in programmes aimed at poverty alleviation, when multiplier effects and cost-effectiveness are taken into account. This approach is best promoted by involving stakeholders throughout the project cycle, beginning with the initial planning stage, so that the selection of strategies and specific measures will be suited to their needs.

73. The operations of micro- and small enterprises are an important means of enhancing opportunity and broadening participation primarily through the creation of employment. In the first instance, policies and measures for broad-based economic development at both the international and national levels are important for the successful operation of micro-entrepreneurs and SMEs. These would include:

(a) At the international level, measures for the containment of instability in international trade and financial flows to developing countries, recognition of the special vulnerabilities of the latter, an increase in the volume and variety of compensatory financing, and facilitation of regional cooperation among developing countries;

(b) At the national level:

(i) Macroeconomic and mesoeconomic policies that ensure a stable environment for rational economic activity, taking due account of the differential effects of such policies on the various economic sectors, enterprises of different sizes and social groups;

(ii) Infrastructure development, both physical and social, with priority accorded to the development of:

a. Transport and communications to facilitate marketing and distribution of goods;

b. Education, as an investment in human productivity;

c. General health conditions, as an investment in human resources development;

(iii) Institution-building, to redress the general situation of low institutional capacity, which has tended to constrain both opportunity and participation; such institutions must be economically solvent, politically accepted and designed to ensure feasibility and credibility.

74. Within the scope of mesoeconomic policies, technology, information and training are of particular importance. Lack of access to technology and information as well as limited capacity to adopt and adapt appropriate technologies constitute a major limitation on the development of

micro-enterprises and SMEs. Producers' associations and cooperatives can play a role in transferring technology, as can contacts with foreign companies, especially in the case of export- and technology-oriented enterprises. Appropriate and flexible training must also be available to small entrepreneurs.

75. Owing to the particular vulnerability of micro-enterprises and SMEs to external and internal shocks, however, specific targeted public interventions are necessary. Such interventions should be decentralized to ensure effective targeting and designed to support markets rather than to supplant them.

76. Lack of financial resources constitutes a major constraint on the development and operation of micro- and small enterprises. To begin with, public funds for the development of micro- and small enterprises are generally inadequate. More importantly, lacking access to regular sources of commercial credit, the majority of the micro- and small enterprises are driven to resort to moneylenders who charge well above commercial rates of interest. Thus, measures to improve their access to finance are critical to the development and successful operation of micro-enterprises and SMEs. Such measures would include the following:

(a) The encouragement of development banks and the provision of incentives to commercial banks to serve micro-enterprises and SMEs;

(b) Increased availability of banking services to rural people and other target groups not usually reached by such services;

(c) The encouragement of partnerships between commercial banks and international financial institutions, on the one hand, and between non-governmental organizations and community-based development organizations, on the other hand, in cases where the latter have the demonstrated capacity to work with micro- and small entrepreneurs and to help them start sustainable businesses;

(d) The encouragement of the private sector to increase its involvement in both technical assistance and technology transfer to micro- and small entrepreneurs;

(e) Increased support from donors and international agencies for the development of institutions within developing countries that can provide capital and training to micro- and small entrepreneurs and manage enterprise development programmes.

77. Entrepreneur development is another approach to the promotion of micro- and small enterprises. This approach involves the identification of successful entrepreneurs and individuals with the potential for expanding economic activities, and provision to them of appropriate support, including training, where necessary.

78. Measures by Governments and the business community to expand opportunities for women in public life and in economic activity and to facilitate their participation in other spheres of social life are of particular importance. Such emphasis on women is warranted since women, who compose more than half of

the world's poor, often face special legal and social obstructions in carrying out business and economic activities, despite their record of being responsible entrepreneurs and the principal contributors to the welfare of the family. In order to increase the participation of women in economic activity through entrepreneurial development, the following measures are proposed:

(a) Women should be encouraged to expand their businesses beyond self-employment;

(b) Special emphasis should be placed on basic literacy programmes and general education for women;

(c) Focused basic business education and, in particular, training in entrepreneurial skills and attitudes should be provided to women;

(d) Networks to provide information and advice should be promoted to support the development of women entrepreneurs;

(e) The access of women to credit should be eased - this may involve recourse to alternative financial institutions, designed specifically to serve women entrepreneurs.

79. Contrary to the general perception that SMEs are not competitive internationally, they are important in the export sectors of a number of countries. However, this requires that government policy should provide an enabling environment and allow price mechanisms to work. Foreign partners, such as trading companies, firms making direct investment, or even the demonstration effect of tourists, can help the development of these export-oriented SMEs in various ways. Governments should also consider offering an integrated package of assistance, including tariff/tax reductions, export credit guarantees, support for linkages between SMEs and larger firms through subcontracting, technical assistance and marketing, export facilitation and improved information on overseas markets. Innovative concepts that may be considered include franchising, industrial incubator schemes and venture capital financing. Regional cooperation among developing countries may also complement national efforts of SME development, providing expanded trading and investment opportunities.

80. Attention should also be paid to the promotion of technology-oriented small enterprises. Owing to their flexibility, small firms are increasingly becoming a major source of innovation, thereby gaining a comparative advantage over larger firms. Their development can further facilitate the widespread acquisition of skills in both technical know-how and business practices. Governments can promote such enterprises in a number of ways. In addition to the measures discussed above, Governments can encourage the use of global telecommunication networks to improve the access of small firms to information and business services. Secondly, Governments should ensure the protection of intellectual property rights. Thirdly, they should encourage the development of venture capital markets and the establishment of technology parks.

81. While cooperatives have in many cases broadened participation by their very nature, their record in creating sustained economic opportunity has varied

across sectors. Service-providing cooperatives seem to be relatively successful in exploiting economies of scale, while production cooperatives have a more mixed record.

82. The participatory approach seems particularly suitable for promoting sustainable agriculture. For example, non-governmental organizations can be very effective in implementing seed provision programmes. Cooperation with international non-governmental organizations and aid agencies can help overcome the frequently low capacity level of local non-governmental organizations. Involving local farmer enterprises in seed production can also be an effective means of broadening participation. The small-scale cultivation of tree crops can contribute to sustainable agriculture and poverty alleviation. As for sustainable fisheries, especially in-shore, coastal fisheries, the appropriateness of artisanal knowledge and traditional technology has been recognized and deserves to be encouraged. Moreover, conservation programmes and restrictions on access to protected fisheries reserved for local communities may be necessary to reconcile equity considerations with sustainable exploitation of the fishery resources. As in other areas, there is a need for capacity-building and enhancement of the role of women.

83. The United Nations has an important role to play in bringing forward the generally felt concern for the expansion of opportunity and the broadening of participation, especially in the developing countries. In addition to stimulating the widest possible discussion of the issues touched on in the present report, the United Nations and its agencies can make an important contribution by:

(a) Endorsing initiatives aimed at expanding opportunities and broadening participation, particularly for the less-advantaged sectors of the populations of all countries;

(b) Encouraging the employment of the concepts of opportunity and participation in development initiatives and project formulation, particularly for projects targeted at disadvantaged groups;

(c) Disseminating to developing countries, development models that have worked in various places, such as the EMPRETEC, trickle-up and Women's World Banking programmes mentioned in the report;

(d) Providing direct technical and financial assistance within various country programmes to micro- and small enterprises;

(e) Promoting a more balanced view of market behaviour, taking into account the broader factors that affect markets, in the formulation of structural adjustment and other development programmes;

(f) Involving those individuals and institutions that have been involved in successful programmes with disadvantaged groups in the formulation of projects related to micro-enterprises and SME development at the regional, subregional and international levels.

Notes

1/ The expression "small enterprises" covers micro-enterprises as well as small and medium-sized enterprises, terms often used together in the present report. Definitions of these terms abound. N. Chowdhury, in a paper prepared for the United Nations Panel on Opportunity and Participation, entitled "Opportunity and participation in economic development: recent experience and policy options", cites J. Curran who found 75 countries defining small firms in 50 different ways. In an OECD study (C Morrisson and others, Micro-enterprises and the Institutional Framework: In Developing Countries (Paris, OECD, 1994)) micro-enterprises are defined as those with fewer than 20 workers. Its definition of workers includes all the people working in the enterprise, including owners, and wage- as well as non-wage-workers. "Micro-enterprises", defined as ones with 1 to 10 workers, are considered as differing from small and medium-sized enterprises in their frequent engagement of non-wage workers. "Medium-sized enterprises" are defined as ones with more than 20 workers, implying that "small enterprises" are those with between 11 and 20 workers.

2/ In fact, economic, social and political aspects of opportunity interact. The Programme of Action of the World Summit for Social Development (Report of the World Summit for Social Development, Copenhagen, 6-12 March 1995 (A/CONF.166/9), chap. I, resolution 1, annex II) also refers to the promotion of SMEs as a means to achieve social development (see, for example, paras. 12 (h), 44, 51 and 91 (c)).

3/ Marja Liisa Swantz, "Participation in economic development" (Helsinki, United Nations University/World Institute for Development Economics Research, 1994), p. 1.

4/ See Report of the World Summit for Social Development ..., paras. 2 and 4; see, also, World Bank, The World Bank and Participation (Washington, D.C., 1994), in which the Bank's Learning Group on Participatory Development defines participation in the development context as a process through which stakeholders influence and share control over development initiatives, decisions and resources which affect them.

5/ See Report of the World Summit for Social Development ..., para. 7.

6/ Ibid., paras. 72 (a) to (c); see, also, Bhatnagar and Williams, op. cit., pp. 22-23.

7/ See Bhatnagar and Williams, op. cit., pp. 21-24.

8/ The statistics are based on the data maintained by the Department for Economic and Social Information and Policy Analysis of the United Nations Secretariat.

9/ See World Economic and Social Survey 1995 (United Nations publication, Sales No. E.95.II.C.1), table A.1.

10/ See A. Berry, in a paper prepared for the United Nations Panel on Opportunity and Participation, entitled "Creating an enabling policy environment: traditional and innovative approaches", in which he cites Brian Levy and others, Technical and Marketing Support Systems for Successful Small and Medium-Sized Enterprises in Four Countries, Policy Research Working Paper No. 1400 (Washington, D.C., World Bank, 1994).

11/ See Women's World Banking, "The missing links: finance and enterprise systems that work for the majority", draft position paper of the Women's World Banking Policy Forum, April 1995, pp. 1-2.

12/ See United Nations Development Programme, Human Development Report, 1993 (New York, Oxford University Press, 1993), p. 96.

13/ See Women's World Banking, Report of the United Nations Expert Group on Women and Finance (1994), p. 21.

14/ The definition of financial self-sufficiency varies among institutions. For example, some define it to cover only costs directly linked to lending, while others define it to cover all costs incurred, including lending and training expenses.

15/ The World Bank has recently announced a new programme, which would provide funds to local banks that specialize in micro-loans. The programme has so far obtained a pledge of $200 million, which is estimated to be able to provide finance credit for a million prospective entrepreneurs a year, with loans being as small as $100 each. When implemented, this would be a considerable step forward for the World Bank in its attempt to reach the poor.

16/ EMPRETEC GHANA, one of the EMPRETEC programmes, an entrepreneur promotion project run by the United Nations Conference on Trade and Development (UNCTAD) and the Department for Development Support and Management Services of the United Nations Secretariat (DDSMS), is openly selective. It bases selection not only on potential but also on successful track records among existing entrepreneurs. But the benefits that spread from the resulting higher success rates seem to justify this approach; for a discussion of the EMPRETEC programme, see box 4 and UNCTAD/DDSMS, EMPRETEC: A Unique Approach to Entrepreneurship Development (Geneva/New York, 1994).

17/ Steve Wiggins and Elizabeth Cromwell, "NGOs and seed provision to smallholders in developing countries", World Development, vol. 23, No. 3 (1995), p. 413.

18/ Tom Osborn, Participatory Agricultural Extension: Experiences from West Africa, Gatekeeper Series No. 48 (London, International Institute for Environment and Development, 1995).

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